



KCELL JSC

Condensed Interim Consolidated
Financial Information
for the three months ended
31 March 2017 (unaudited)

KCELL JSC

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION FOR THE THREE MONTHS ENDED 31 MARCH 2017

Management is responsible for the preparation of the condensed interim consolidated financial information that present fairly the financial position of Kcell JSC ("the Company") and its subsidiaries (together referred to as "the Group") as at 31 March 2017, the results of its operations, cash flows and changes in equity for the three months then ended, in compliance with International Accounting Standard ("IAS") 34, Interim Financial Reporting.

In preparing the condensed interim consolidated financial information, management is responsible for:

- properly selecting and applying accounting policies;
- making judgments and estimates that are reasonable and prudent;
- stating whether IAS 34 have been followed, subject to any material departures disclosed and explained in the condensed interim consolidated financial information;
- providing additional disclosures when compliance with the specific requirements in IAS 34 are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the consolidated financial position and financial performance of the Group;
- making an assessment of the Group's ability to continue as a going concern.

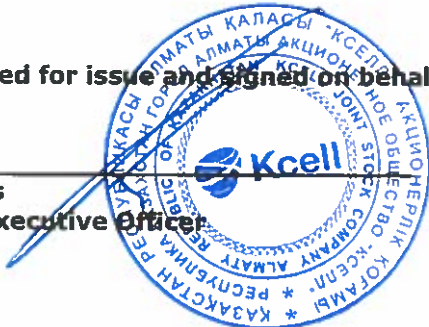
Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls throughout the Group;
- maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the condensed interim consolidated financial information complies with IAS 34;
- maintaining statutory accounting records in compliance with the legislation of Kazakhstan and accounting standards;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

This condensed interim consolidated financial information of the Group for the three months ended 31 March 2017 was approved by management on 12 May 2017.

Approved for issue and signed on behalf of the Management

Arti Ots
Chief Executive Officer



Trond Moe
Chief Financial Officer

REPORT ON REVIEW OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

To the Shareholders and Board of Directors of Kcell JSC

Introduction

We have reviewed the accompanying condensed interim consolidated statement of financial position of Kcell JSC and its subsidiaries as of 31 March 2017, the related condensed interim consolidated statements of comprehensive income, changes in equity and cash flows for the three month then ended, and selected explanatory notes. Management is responsible for the preparation and presentation of this condensed interim consolidated financial information in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting. Our responsibility is to express a conclusion on this condensed interim consolidated financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim consolidated financial information is not prepared, in all material respects, in accordance with IAS 34, Interim Financial Reporting.

Deloitte, LLP

Deloitte LLP

Almaty, Kazakhstan

12 May 2017

KCELL JSC

**CONDENSED INTERIM CONSOLIDATED
STATEMENT OF FINANCIAL POSITION**
(in thousand of Kazakhstani Tenge)

	Note	31 March 2017 (Unaudited)	31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment	7	96,893,669	95,321,606
Intangible assets	8	41,592,770	42,842,480
Long-term trade receivable	9	1,106,042	1,162,961
Restricted cash		86,419	86,419
Total non-current assets		139,678,900	139,413,466
Current assets			
Inventories		2,848,059	3,587,082
Trade and other receivables	9	19,095,601	18,238,920
Prepaid current income tax		12,431,893	10,575,846
Due from related parties	6	710,599	738,983
Cash and cash equivalents		10,043,645	8,476,653
Total current assets		45,129,797	41,617,484
TOTAL ASSETS		184,808,697	181,030,950
EQUITY			
Share capital	10	33,800,000	33,800,000
Retained earnings		42,679,004	38,880,286
TOTAL EQUITY		76,479,004	72,680,286
LIABILITIES			
Non-current liabilities			
Deferred income tax liability		5,544,020	6,012,214
Other non-current liabilities		1,354,594	1,285,482
Borrowings	12	34,000,000	8,000,000
Total non-current liabilities		40,898,614	15,297,696
Current liabilities			
Borrowings	12	31,273,750	57,414,639
Trade and other payables	11	28,522,767	26,952,614
Due to related parties	6	1,273,562	1,525,559
Deferred revenue		5,911,402	6,759,535
Taxes payable		449,598	400,621
Total current liabilities		67,431,079	93,052,968
TOTAL LIABILITIES		108,329,693	108,350,664
TOTAL LIABILITIES AND EQUITY		184,808,697	181,030,950

Approved for issue and signed on behalf of the Management on 12 May 2017

Arti Ots
Chief Executive Officer

Trond Moe
Chief Financial Officer

The accompanying notes on pages 7 to 20 are an integral part of this condensed interim consolidated financial information

KCELL JSC

**CONDENSED INTERIM CONSOLIDATED
STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)**
(in thousand of Kazakhstani Tenge, unless otherwise stated)

	Note	For the three months ended	
		31 March 2017	31 March 2016
Revenues		35,516,783	35,469,725
Cost of sales		(22,579,295)	(20,728,410)
Gross profit		12,937,488	14,741,315
Selling and marketing expenses		(2,637,413)	(2,512,780)
General and administrative expenses		(2,976,657)	(3,121,934)
Other operating income		298,621	1,044,821
Other operating expenses		(126,758)	(1,093,669)
Operating profit		7,495,281	9,057,753
Finance income		163,608	1,384,911
Finance costs		(2,846,696)	(2,134,861)
Profit before income tax		4,812,193	8,307,803
Income tax expense	13	(1,013,475)	(1,682,721)
Profit and total comprehensive income for the period		3,798,718	6,625,082
Earnings per share (Kazakhstani Tenge), basic and diluted	10	18.99	33.13

Profit and total comprehensive income for both periods are fully attributable to the Group's shareholders.

Approved for issue and signed on behalf of the Management on 12 May 2017

Arti Ots
Chief Executive Officer

Trond Moe
Chief Financial Officer

The accompanying notes on pages 17 to 20 are an integral part of this condensed interim consolidated financial information

KCELL JSC

**CONDENSED INTERIM CONSOLIDATED
STATEMENT OF CHANGES IN EQUITY (UNAUDITED)**

(in thousand of Kazakhstani Tenge)

	<u>Share capital</u>	<u>Retained earnings</u>	<u>Total equity</u>
Balance as at 1 January 2016	33,800,000	46,646,103	80,446,103
Profit and total comprehensive income for the period	-	6,625,082	6,625,082
Balance as at 31 March 2016	<u>33,800,000</u>	<u>53,271,185</u>	<u>87,071,185</u>
Balance as at 1 January 2017	33,800,000	38,880,286	72,680,286
Profit and total comprehensive income for the period	-	3,798,718	3,798,718
Balance as at 31 March 2017	<u>33,800,000</u>	<u>42,679,004</u>	<u>76,479,004</u>

Approved for issue and signed on behalf of the Management on 12 May 2017

Arti Ots
Chief Executive Officer

Trond Moe
Chief Financial Officer

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KCELL JSC

**CONDENSED INTERIM CONSOLIDATED
STATEMENT OF CASH FLOWS (UNAUDITED)**
(in thousand of Kazakhstani Tenge)

	Note	For the three months ended	
		31 March 2017	31 March 2016
Cash flows from operating activities			
Profit for the period		3,798,718	6,625,082
Adjustments for:			
Depreciation of property, plant and equipment	7	4,174,946	4,377,904
Amortisation of intangible assets	8	1,455,510	1,134,893
Income tax		(2,324,241)	(2,481,132)
Net foreign exchange loss/(gain)		22,189	(881,538)
Interest income		(145,370)	(336,881)
Impairment of trade receivables		245,244	224,817
Interest expense		2,647,812	2,025,656
Impairment and loss on disposal of property, plant and equipment		-	9,666
		<u>9,874,808</u>	<u>10,698,467</u>
Change in working capital and other balances:			
Trade and other receivables		(1,320,320)	(2,444,966)
Long-term receivables		56,919	(373,839)
Due from related parties		28,384	198,259
Inventories		739,023	(360,803)
Taxes payable		48,977	(465,982)
Trade and other payables		694,314	1,675,722
Due to related parties		(251,997)	97,039
Deferred revenues		(848,133)	(1,186,315)
Other		-	59,529
		<u>9,021,975</u>	<u>7,897,111</u>
Interest paid		(2,570,306)	(1,876,830)
Interest received		145,370	336,881
		<u>6,597,039</u>	<u>6,357,162</u>
Net cash generated from operating activities			
Cash flows from investing activities			
Purchase of property, plant and equipment		(4,643,582)	(5,621,141)
Purchase of intangible assets		(205,800)	(14,230,194)
		<u>(4,849,382)</u>	<u>(19,851,335)</u>
Net cash used in investing activities			
Cash flows from financing activities			
Proceeds from bank borrowings		26,000,000	-
Repayment of borrowings		(26,000,000)	-
		<u>-</u>	<u>-</u>
Net cash from financing activities			
Net increase/(decrease) in cash and cash equivalents		1,747,657	(13,494,173)
Effects of exchange rate changes on cash and cash equivalents held in foreign currencies		(180,665)	1,048,030
Cash and cash equivalents at the beginning of the period		8,476,653	31,589,007
		<u>10,043,645</u>	<u>19,142,864</u>
Cash and cash equivalents at the end of the period		10,043,645	19,142,864

Approved for issue and signed on behalf of the Management on 12 May 2017

Arti Ots
Chief Executive Officer

Trond Moe
Chief Financial Officer

The accompanying notes on pages 7 to 20 are an integral part of this condensed interim consolidated financial information

**NOTES TO THE CONDENSED INTERIM CONSOLIDATED
FINANCIAL INFORMATION FOR THE THREE MONTHS ENDED 31 MARCH 2017**
(in thousand of Kazakhstani Tenge, unless otherwise stated)

1. THE GROUP AND ITS OPERATIONS

This condensed interim consolidated financial information has been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting, for the three months ended 31 March 2017 for Kcell JSC ("the Company") and its subsidiaries (together referred to as "the Group").

The Company was established as a limited liability partnership (GSM Kazakhstan OAO Kazakhtelecom LLP) on 1 June 1998 to design, construct and operate a cellular telecommunications network in the Republic of Kazakhstan using the GSM (Global System for Mobile Communications) standard.

The Company began its commercial operations in 1999 through direct sales and a network of distributors. Prior to 2 February 2012, the Company was owned 51 percent by Fintur Holdings B.V. ("Fintur" or "Parent company") and 49 percent by Kazakhtelecom JSC ("Kazakhtelecom"). Fintur itself is owned jointly by Sonera Holding B.V. ("Sonera") and Turkcell Iletisim Hizmetleri A.S., with holdings of 58.55 percent and 41.45 percent, respectively.

On 2 February 2012, the 49 percent stake in the Company owned by Kazakhtelecom was sold directly to Sonera, a subsidiary of Telia Company.

On 1 July 2012, the General Meeting of the participants of GSM Kazakhstan approved a conversion of the Company from a limited liability partnership to a joint stock company (the "Conversion"), with 200,000,000 common shares to be transferred to Fintur and Sonera in proportion to their ownership percentage. The General Meeting also approved the Company's change of name to Kcell JSC.

On 27 August 2012, the Ministry of Justice registered the Company as a joint stock company. Under Kazakhstani law, upon the Conversion, retained earnings as of the date of the Conversion became share capital of the Company and ceased to be available for distribution to shareholders.

On 13 December 2012, the Company successfully completed its offering of Global Depositary Receipts on the London Stock Exchange and common shares on the Kazakhstan Stock Exchange. The offering consisted of a sale by Sonera of 50 million shares, which represented 25 percent of the Company's share capital.

On 4 May 2016, the 24 percent stake in the Company owned by Sonera was sold directly to TeliaSonera Kazakhstan Holding B.V. ("TeliaSonera Kazakhstan"), a subsidiary of Telia Company. The Company's ultimate parent and controlling party is Telia Company.

The Company owns the following subsidiaries:

	Ownership interest		Voting power	
	31 March 2017	31 December 2016	31 March 2017	31 December 2016
KazNet Media LLP (Note 3)	100%	100%	100%	100%
KT-Telecom LLP	100%	100%	100%	100%
AR-Telecom LLP	100%	100%	100%	100%

Operations

On 25 December 2010, a competent authority signed an addendum to the existing GSM license, which provided the Company with a right to operate a 3G network. In December 2010, the Company launched 3G services in Astana and Almaty. As of 1 January 2015, the Group provided all locations with a population of over 10,000 people with mobile services using UMTS/WCDMA based on the terms of the addendum.

**NOTES TO THE CONDENSED INTERIM CONSOLIDATED
FINANCIAL INFORMATION (CONTINUED)**

(in thousand of Kazakhstani Tenge, unless otherwise stated)

In January 2016, the Group paid 14 billion Tenge as the first tranche for LTE radio frequencies. In accordance with the decision made by Kazakhstan's Ministry of Investments and Development ("MID") in January 2016, the Group had to pay a one-time fee of 4 billion Tenge by 1 February 2016 for 10/10 MHz radio frequency within the 1700/1800 MHz band, and the first tranche of 10 billion Tenge by 1 March 2016 to gain access to 10/10 MHz radio frequency within the 700/800 MHz band. The second tranche for 10/10 MHz radio frequencies within the 700/800 MHz band in the amount of 12 billion Tenge was to be paid by 1 December 2016. The Group paid the second tranche on 30 November 2016. On 1 March 2016, the Group launched LTE in its network on the previously granted frequencies.

The Company's registered address is 100, Samal-2, Almaty, the Republic of Kazakhstan.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

This condensed interim consolidated financial information for the three months ended 31 March 2017 has been prepared in accordance with IAS 34, Interim Financial Reporting. The condensed interim consolidated financial information should be read in conjunction with the annual consolidated financial statements for the year ended 31 December 2016, which were prepared in accordance with International Financial Reporting Standards ("IFRS").

Accounting policies

The accounting policies adopted are consistent with those of the previous financial year.

Income taxes

Taxes on income for the interim periods are accrued using the tax rate that would be applicable to expected total annual profit or loss.

Foreign currency translation

As at 31 March 2017, the principal rate of exchange of the National Bank of the Republic of Kazakhstan used for translating foreign currency balances was US Dollar 1 = Kazakhstani Tenge ("Tenge") 314.79 (31 December 2016: US Dollar 1 = Tenge 333.29).

New and revised standards

New standards, amendments and interpretations shall be applied in preparation of the first interim financial information issued after their effective dates. There are no IFRS or their interpretations, which would have material effect on the Group when applied for the first time to this interim period.

The range of new standards, amendments to the standards and interpretations are effective as at 31 March 2017. The requirements of these amended standards have been considered for preparation of these condensed interim consolidated financial information.

In the current year, the Group has applied a number of amendments to IFRS and a new Interpretation issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2017.

- IFRS 12: Amendments resulting from Annual Improvements 2014–2016 Cycle (clarifying scope);
- IAS 7: Amendments as result of the Disclosure Initiative;
- IAS 12: Amendments regarding the recognition of deferred tax assets for unrealised losses.

**NOTES TO THE CONDENSED INTERIM CONSOLIDATED
FINANCIAL INFORMATION (CONTINUED)**

(in thousand of Kazakhstani Tenge, unless otherwise stated)

3. BUSINESS COMBINATION UNDER COMMON CONTROL

On 26 August 2012, Sonera and the Company entered into a memorandum of understanding ("the MoU"), under which the Company had the right to require Sonera to sell to it, and Sonera had the right to require the Company to acquire from it:

- all participatory interests owned by Sonera in KazNet Media LLP ("KazNet") together with all rights and obligations of Sonera under a framework agreement to buy all the participatory interests in the charter capital of KazNet; and
- and all the participatory interests owned by Sonera in Rodnik Inc LLP ("Rodnik") together with all rights and obligations of Sonera under the agreements to buy participatory interests in the charter capital of Rodnik (refer to "Investment in Rodnik by Sonera" in Note 14).

On 20 October 2015, the Company and KT-Telecom (100 percent subsidiary of the Company) signed an agreement ("the Agreement") for the purchase of 100 percent of the participatory interest in KazNet where Sonera is the seller. KazNet holds 100 percent of the participatory interest in Aksoran and 100 percent of the participatory interest in Instaphone – companies holding frequencies that are capable of being deployed for 4G/LTE.

In accordance with the Agreement, the amount of the transaction is divided by two tranches. The first tranche comprises a nominal price of 5 million US Dollars; the second tranche equals to the fair market value of the frequencies. If the parties of the Agreement can not agree commercially on the fair value of the frequencies, then the fair value shall be determined by independent appraiser appointed by the parties. The total amount of the transaction shall not exceed 70 million US Dollars.

In accordance with the Agreement, the second tranche shall be paid by the Company within 60 calendar days from the date at which the frequencies are permitted to be used by the Company for 4G/LTE services in Kazakhstan. The Company shall receive the relevant authorisation for the use of the frequencies by 31 December 2025. The second tranche shall not be due and payable if the Company is not authorised to provide 4G/LTE services in Kazakhstan by 31 December 2025. As at 31 March 2017, the Company did not apply for permission to use the frequencies.

In accordance with the Agreement, the completion of the deal is subject to the satisfaction of a list of conditions, including but not limited to, signing of waiver-letters and execution of an amendment to the MoU.

On 15 January 2016, all parties of the Agreement signed waiver-letters according to which all parties confirmed no need for execution of the amendment to the MoU and corresponding satisfaction of all the conditions precedent set forth in the Agreement.

On 4 May 2016, the Company and KT-Telecom signed an amendment to the Agreement for the purchase of a 100% participatory interest in KazNet from Telia Company for 1 US Dollar (the revised first tranche following the amendment). The parties agreed that the control over KazNet is transferred to the Group and thereafter the Group would consolidate KazNet, including its subsidiaries Aksoran and Instaphone, starting from the month after Aksoran repays the 5 million US Dollars of loan principal plus 369 thousand US Dollars of accrued interest on that loan to Sonera.

On 5 May 2016, KazNet repaid a loan due to Sonera in full, thus the Group obtained control over the activity of KazNet, including Aksoran and Instaphone, and consolidated its financial information since June 2016. Since the transfer of ownership in KazNet represents a business combination under common control (with Telia Company being the ultimate parent), the assets and liabilities of the transferred subsidiary were recognised at their historical carrying values per the predecessor owner's financial statements. The Group consolidated financial statements of these companies from the date of control transfer.

**NOTES TO THE CONDENSED INTERIM CONSOLIDATED
FINANCIAL INFORMATION (CONTINUED)**

(in thousand of Kazakhstani Tenge, unless otherwise stated)

4. CRITICAL ACCOUNTING ESTIMATES, AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The preparation of the condensed interim consolidated financial information required management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed interim consolidated financial information, significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 31 December 2016 with the exception of changes in estimates that are required in determining the provision for income taxes.

5. SEGMENT INFORMATION

The Group's operations are a single reportable segment.

The Group provides mobile communication services in the Republic of Kazakhstan. The Group identifies the segment in accordance with the criteria set in IFRS 8, *Operating Segments*, and based on the way the operations of the Group are regularly reviewed by the chief operating decision maker to analyse performance and allocate resources among business units of the Group.

The chief operating decision-maker ("CODM") has been determined as the Company's Chief Executive Officer. The CODM reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined a single operating segment being mobile communication services based on these internal reports.

6. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The Group's ultimate controlling party is Telia Company. Telia Company group includes entities under common control and associates of Telia Company. Immediate shareholders are disclosed in the Note 10.

The Group's primary transactions with related parties are consulting services, technical assistance and operational support, roaming and interconnect. Amounts due from and due to related parties as at 31 March 2017 and 31 December 2016 were as follows:

		<u>31 March 2017</u>	<u>31 December 2016</u>
Due from related parties	Entities of Telia Company group	710,599	738,983
Due to related parties	Entities of Telia Company group	376,411	522,766
Due to related parties	Immediate and ultimate parent	897,151	1,002,793

Amounts due from related parties are neither past due nor impaired. They represent receivables from related parties for roaming services. These entities do not have credit ratings assigned but their reliability is determined by the Group on the basis of long-term cooperation and their good credit history. The Group's management believes that amounts due from related parties will be fully repaid within one year.

KCELL JSC

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

(in thousand of Kazakhstani Tenge, unless otherwise stated)

The income and expense items with related parties for the three months ended 31 March 2017 and 2016 were as follows:

		<u>Three months ended</u>	
		<u>31 March 2017</u>	<u>31 March 2016</u>
Revenue	Entities of Telia Company group	255,851	402,765
Expenses	Entities of Telia Company group	1,155,552	1,137,776
Expenses	Immediate and ultimate parent	2,643	5,699

7. PROPERTY, PLANT AND EQUIPMENT

	<u>Property</u>	<u>Plant and machinery</u>	<u>Equipment tools and installations</u>	<u>Assets under construction and advances given</u>	<u>Total</u>
As at 1 January 2016					
Cost	21,048,276	183,391,835	25,182,608	10,676,412	240,299,131
Accumulated depreciation and impairment losses	<u>(4,627,370)</u>	<u>(122,654,933)</u>	<u>(18,515,383)</u>	-	<u>(145,797,686)</u>
Carrying amount as at 1 January 2016	<u>16,420,906</u>	<u>60,736,902</u>	<u>6,667,225</u>	<u>10,676,412</u>	<u>94,501,445</u>
Additions	108,787	-	548,951	2,269,064	2,926,802
Transfers	-	956,796	123,859	(1,080,655)	-
Disposal	-	-	(9,666)	-	(9,666)
Depreciation charge	<u>(188,899)</u>	<u>(3,670,945)</u>	<u>(518,060)</u>	-	<u>(4,377,904)</u>
As at 31 March 2016					
Cost	21,157,063	184,348,631	25,769,891	11,864,821	243,140,406
Accumulated depreciation and impairment losses	<u>(4,816,269)</u>	<u>(126,325,878)</u>	<u>(18,957,582)</u>	-	<u>(150,099,729)</u>
Carrying amount as at 31 March 2016	<u>16,340,794</u>	<u>58,022,753</u>	<u>6,812,309</u>	<u>11,864,821</u>	<u>93,040,677</u>
As at 1 January 2017					
Cost	21,216,911	193,752,896	26,553,990	16,711,684	258,235,481
Accumulated depreciation and impairment losses	<u>(5,313,603)</u>	<u>(137,350,205)</u>	<u>(20,250,067)</u>	-	<u>(162,913,875)</u>
Carrying amount as at 1 January 2017	<u>15,903,308</u>	<u>56,402,691</u>	<u>6,303,923</u>	<u>16,711,684</u>	<u>95,321,606</u>
Additions	-	-	79,891	5,667,118	5,747,009
Transfers	-	1,942,030	773,914	(2,715,944)	-
Depreciation charge	<u>(140,924)</u>	<u>(3,614,654)</u>	<u>(419,368)</u>	-	<u>(4,174,946)</u>
As at 31 March 2017					
Cost	21,216,911	195,694,926	27,407,795	19,662,858	263,982,490
Accumulated depreciation and impairment losses	<u>(5,454,527)</u>	<u>(140,964,859)</u>	<u>(20,669,435)</u>	-	<u>(167,088,821)</u>
Carrying amount as at 31 March 2017	<u>15,762,384</u>	<u>54,730,067</u>	<u>6,738,360</u>	<u>19,662,858</u>	<u>96,893,669</u>

As at 31 March 2017, the gross carrying value of property, plant and equipment, which has been fully depreciated and still in use, was 95,683,217 thousand Tenge (31 December 2016: 95,704,126 thousand Tenge).

KCELL JSC
**NOTES TO THE CONDENSED INTERIM CONSOLIDATED
FINANCIAL INFORMATION (CONTINUED)**
(in thousand of Kazakhstani Tenge, unless otherwise stated)
8. INTANGIBLE ASSETS

	Software and licenses	Intangible assets in progress	Advances given	Total
As at 1 January 2016				
Cost	41,605,939	3,886,778	382,504	45,875,221
Accumulated amortisation	(28,919,033)	-	-	(28,919,033)
Carrying amount as at 1 January 2016	12,686,906	3,886,778	382,504	16,956,188
Additions	26,230,194	-	-	26,230,194
Transfers	374,282	-	(374,282)	-
Amortisation charge	(1,134,893)	-	-	(1,134,893)
As at 31 March 2016				
Cost	68,860,415	3,886,778	8,222	72,755,415
Accumulated amortisation	(30,703,926)	-	-	(30,703,926)
Carrying amount as at 31 March 2016	38,156,489	3,886,778	8,222	42,051,489
As at 1 January 2017				
Cost	73,151,906	5,638,363	8,222	78,798,491
Accumulated amortisation	(35,956,011)	-	-	(35,956,011)
Carrying amount as at 1 January 2017	37,195,895	5,638,363	8,222	42,842,480
Additions	81,255	-	124,545	205,800
Transfers	19,146	-	(19,146)	-
Amortisation charge	(1,455,510)	-	-	(1,455,510)
As at 31 March 2017				
Cost	73,252,307	5,638,363	113,621	79,004,291
Accumulated amortisation	(37,411,521)	-	-	(37,411,521)
Carrying amount as at 31 March 2017	35,840,786	5,638,363	113,621	41,592,770

As at 31 March 2017, the carrying amount of the 3G license was 2,916,667 thousand Tenge (31 December 2016: 3,000,000 thousand Tenge) and its remaining amortisation period was 9 years. As at 31 March 2017, the carrying amount of the 4G license was 23,977,778 thousand Tenge (31 December 2016: 24,411,111) and its remaining amortisation period was 14 years. As at 31 March 2017, the gross carrying value of intangible assets, which has been fully amortised and still in use, was 16,368,018 thousand Tenge (31 December 2016: 16,668,784 thousand Tenge).

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

(in thousand of Kazakhstani Tenge, unless otherwise stated)

9. TRADE AND OTHER RECEIVABLES

	31 March 2017	31 December 2016
Trade receivables from subscribers	13,531,590	12,955,810
Trade and other receivables from dealers and distributors	1,133,957	1,280,359
Trade receivables for interconnect services	603,200	452,276
Trade receivables from roaming operators	410,932	1,895,114
Less: allowance for impairment of trade receivables	<u>(2,983,375)</u>	<u>(2,839,931)</u>
Total financial assets	<u>12,696,304</u>	<u>13,743,628</u>
Less: long-term trade receivable	(1,106,042)	(1,162,961)
Total current financial assets	<u>11,590,262</u>	<u>12,580,667</u>
VAT recoverable	4,498,296	2,330,281
Advances to suppliers	1,660,876	1,456,953
Deferred expenses	417,716	544,379
Prepaid other taxes	387,218	454,778
Other receivables	<u>541,233</u>	<u>871,862</u>
Total trade and other receivables	<u>19,095,601</u>	<u>18,238,920</u>

10. SHARE CAPITAL AND EARNINGS PER SHARE

Share capital of the Group at 31 March 2017 is as follows:

	31 March 2017		31 December 2016	
	Share	Number of shares	Share	Number of shares
Fintur	51 percent	102,000,000	51 percent	102,000,000
TeliaSonera Kazakhstan	24 percent	48,000,000	24 percent	48,000,000
JSC Central Securities Depository	23.29 percent	46,587,174	23.32 percent	46,636,793
Single Accumulative Pension Fund	1.14 percent	2,270,950	1.14 percent	2,270,950
Other	0.57 percent	1,141,876	0.54 percent	1,092,257

The total authorised number of ordinary shares is 200,000,000 shares with a par value of 169 Tenge per share, all of which are issued and fully paid.

The calculation of basic and diluted earnings per share is based on the following data:

	For the three months ended	
	31 March 2017	31 March 2016
Profit for the period attributable to equity shareholders	3,798,718	6,625,082
Weighted average number of common shares	<u>200,000,000</u>	<u>200,000,000</u>
Earnings per share (Kazakhstani Tenge), basic and diluted	<u>18.99</u>	<u>33.13</u>

The Group has no dilutive or potentially dilutive securities outstanding.

According to the requirements of the Kazakhstan Stock Exchange (KASE), the Group calculated book value per share, which was calculated based on the number of common shares outstanding as at the reporting date. The book value per share as at 31 March 2017 and 31 December 2016 is presented below.

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION (CONTINUED)

(in thousand of Kazakhstani Tenge, unless otherwise stated)

	<u>31 March 2017</u>	<u>31 December 2016</u>
Net assets, excluding intangible assets	34,886,234	29,837,806
Number of common shares in issue	<u>200,000,000</u>	<u>200,000,000</u>
Book value per share (Kazakhstani Tenge)	<u>174.43</u>	<u>149.19</u>

During the three months ended 31 March 2017 and 2016, the Group has not declared dividends.

11. TRADE AND OTHER PAYABLES

	<u>31 March 2017</u>	<u>31 December 2016</u>
Trade payables	<u>22,320,219</u>	<u>21,605,956</u>
Total financial liabilities	<u>22,320,219</u>	<u>21,605,956</u>
Accrued salaries and bonuses to employees	2,095,521	1,276,596
Other payables	<u>4,107,027</u>	<u>4,070,062</u>
Total trade and other payables	<u>28,522,767</u>	<u>26,952,614</u>

12. BORROWINGS

	<u>31 March 2017</u>	<u>31 December 2016</u>
Eurasian Development Bank	26,065,722	-
Halyk Bank of Kazakhstan JSC	20,043,500	42,221,389
Subsidiary Bank ("SB") Alfabank JSC	10,115,278	10,124,500
Kazkommertsbank JSC	6,018,000	10,035,000
Altyn Bank JSC (previously – SB HSBC Kazakhstan JSC)	<u>3,031,250</u>	<u>3,033,750</u>
Total borrowings	<u>65,273,750</u>	<u>65,414,639</u>
<i>Including</i>		
Long-term loans	34,000,000	8,000,000
Short-term loans	31,000,000	57,000,000
Accrued interest	<u>273,750</u>	<u>414,639</u>

The Group's borrowings are denominated in Kazakhstani Tenge. The Group has not entered into any hedging arrangements in respect of interest rate exposures.

The carrying amount of the Group's borrowings approximates their fair value.

**NOTES TO THE CONDENSED INTERIM CONSOLIDATED
FINANCIAL INFORMATION (CONTINUED)**
(in thousand of Kazakhstani Tenge, unless otherwise stated)

The details of the Group's borrowings as at 31 March 2017 are as follows:

Bank name	Date of issue	Maturity date	Nominal interest rate	Outstanding balance	Total borrowings
Eurasian Development Bank	10.02.2017	20.06.2018	13.00%	26,065,722	26,065,722
Halyk Bank of Kazakhstan JSC	23.09.2016	20.09.2019	14.50%	12,033,833	12,033,833
Halyk Bank of Kazakhstan JSC	28.11.2016	27.11.2017	14.50%	8,009,667	8,009,667
SB AlfaBank JSC	08.06.2016	08.06.2017	17.00%	6,070,833	6,070,833
Kazkommertsbank JSC	25.09.2016	24.09.2017	18.00%	6,018,000	6,018,000
SB AlfaBank JSC	15.07.2016	10.07.2017	16.00%	4,044,445	4,044,445
Altyn Bank JSC	04.10.2016	25.09.2017	15.00%	3,031,250	3,031,250
				65,273,750	65,273,750

As at 31 March 2017 and 31 December 2016, no assets were pledged under borrowing agreements.

As at 31 March 2017 and 31 December 2016, the Group was in compliance with financial covenants.

13. INCOME TAXES

Income tax expense is recognised based on the management's estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the three months ended 31 March 2017 is 20 percent (the estimated tax rate for the three months ended 31 March 2016 was 20 percent).

14. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS
Political and economic conditions in the Republic of Kazakhstan

Emerging markets such as Kazakhstan are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Kazakhstan continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Kazakhstan is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Kazakhstan produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. During 2014-2016, the oil price decreased significantly, which led to a significant decrease in national export revenue. In August 2015, the Government and the National Bank of Kazakhstan announced a transition to a new monetary policy based on a free floating Tenge exchange rate, and cancelled the currency corridor. In 2015 and in the first quarter of 2016, the Tenge depreciated significantly against major foreign currencies.

Management of the Group is monitoring developments in the current environment and taking measures it considered necessary in order to support the sustainability and development of the Group's business in the foreseeable future. However, the impact of further economic developments on future operations and financial position of the Group might be significant.

Taxation

Kazakhstani tax legislation and practice is in a state of continuous development and therefore is subject to varying interpretations and frequent changes, which may be retroactive. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activities of the Group may not coincide with that of management. As a result, transactions may be challenged by tax authorities and the Group may be assessed additional taxes, penalties and interest. Tax periods remain open to retroactive review by the tax authorities for five years.

**NOTES TO THE CONDENSED INTERIM CONSOLIDATED
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(in thousand of Kazakhstani Tenge, unless otherwise stated)

The Company is currently undergoing a tax audit for the years 2012-2015, which commenced in February 2016, the results of which have yet to be finalised. Management of the Company assessed the total value of potential claims and risks related to the tax inspection and accrued a provision in the amount of 3,962,620 thousand Tenge, included in "other payables" (Note 11). Management believes that the amount provided is sufficient to cover any additional tax amounts payable.

The Company's management believes its interpretations of the tax legislation are appropriate and that the Company has justifiable arguments for its tax positions and, if necessary, will dispute the tax assessment results, when provided by the tax authorities, to the fullest extent possible under the legislation of the Republic of Kazakhstan.

Capital expenditure commitments

As at 31 March 2017, the Group had contractual capital expenditure commitments in respect of property, plant and equipment and intangible assets totaling 5,990,744 thousand Tenge (31 December 2016: 4,514,284 thousand Tenge).

Non-cancellable service commitments

The future minimum payments under non-cancellable operating service agreements are as follows:

	<u>31 March 2017</u>	<u>31 December 2016</u>
Not later than 1 year	<u>4,041,250</u>	<u>5,489,090</u>
Total non-cancellable commitments	<u>4,041,250</u>	<u>5,489,090</u>

The Group's non-cancellable service agreements are represented by the 2016 and 2017 Telecommunication Services Agreement on use of transparent communication channels and IP VPN network with Kazakhtelecom and fibre optics use agreement for the same period with KazTransCom JSC.

Acquisitions and investments
(i) Memorandum of understanding with Sonera

On 26 August 2012, Sonera and the Company entered into a memorandum of understanding ("the Buy and Sell MoU"), under which the Company had the right to require Sonera to sell to it, and Sonera had the right to require the Company to acquire from it, all participatory interests owned by Sonera in KazNet together with all rights and obligations of Sonera under a framework agreement to buy all the participatory interests in the charter capital of KazNet and all the participatory interests owned by Sonera in Rodnik Inc LLP ("Rodnik") together with all rights and obligations of Sonera under the agreements to buy participatory interests in the charter capital of Rodnik (refer to "Investment in Rodnik by Sonera").

Subject to satisfaction of the applicable conditions, each of Sonera and the Company was entitled to exercise its option at any time starting from nine months after the date of the offering of global depositary receipts and listing on local stock exchange, which took place on 13 December 2012. The purchase price that the Company was supposed to pay to Sonera for the acquisition resulting from the exercise of the option would be the amount of net cost incurred by Sonera in connection with the corresponding investments and acquisition transactions plus interest accrued on such amount.

The contractual right of Sonera to sell the underlying assets (debt and equity interests and related rights and obligations) to the Company is a financial instrument (derivative) within the scope of IAS 39, *Financial Instruments: Recognition and Measurement*. The derivative instrument should be measured at fair value, with the changes in fair value recognised in the statement of comprehensive income. The Group did not have an unconditional right to avoid the settlement.

**NOTES TO THE CONDENSED INTERIM CONSOLIDATED
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(in thousand of Kazakhstani Tenge, unless otherwise stated)

Sonera had the right to terminate the Buy and Sell MoU at any time by serving a written notice to the Company.

The exercise of these options was conditional upon Fintur having consented to, authorised or voted in favour of the acquisition to be made by the Company as a result of the exercise of such right. In addition, completion of the acquisition contemplated by the exercise of options is subject to law, regulation and any requisite approvals. Sonera had the option to sell ("the Put Option") and the Company had the option to buy ("the Call Option") the participatory interest. The strike price of the both options equals the net costs incurred by Sonera, annually compounded using the interest rate (interest accruals begins when the costs are incurred or the receipts are cashed and ends when the participatory interest are transferred).

Neither the Put Option nor the Call Option could be exercised without the authorisation of Fintur. In addition there is uncertainty in the timing of required changes in 4G/LTE regulation. Accordingly, there is an uncertainty in the valuation of the derivative. On this basis, the Company measured the derivative at the original cost of zero.

On 4 May 2016, the Company obtained control over the activity of KazNet (Note 3).

(ii) Investment in Rodnik by Sonera

Sonera negotiated an agreement with a third party to acquire 25 percent of the participatory interests in the charter capital of Rodnik. Rodnik owns 79.92 percent of the total share capital of KazTransCom JSC ("KTC").

The purchase price for acquisition is 20 million US Dollars, subject to adjustments to be made based on the amount of net debt of Rodnik and KTC at the time the acquisition is completed.

On 13 August 2012, Sonera entered into a call option agreement with a third party, under which Sonera has a call option to acquire another 75 percent participatory interest in Rodnik. Pursuant to the terms of that call option agreement, the call option exercise price will be calculated based on fair market value of the participatory interest in Rodnik.

The acquisition of 25 percent of the participatory interests in the charter capital of Rodnik was completed on 14 January 2013.

Execution of the KazNet option had no effect on the option related to Rodnik.

Anti-monopoly legislation

On 18 October 2011, the Agency for Competition Protection of the Republic of Kazakhstan issued an order mandating inclusion of the Company in the State Register of Dominant and Monopolistic Entities of the Republic of Kazakhstan (the "State Register") in respect of certain services provided by the Company, including interconnection services. The Company challenged its inclusion in the State Register.

In April 2013, the Appellate Judicial Panel for Civil and Administrative Cases of Astana Court cancelled the Order. However, in June 2013, the Cassation Board of Astana court cancelled the April decision of the Appellate Judicial Panel for Civil and Administrative Cases. The Company continued to appeal against inclusion in the State Register in the Supervisory Board of the Supreme Court, however, in November 2013 the Company's application had been cancelled.

Starting from June 2013, the Company was subject to regulation by the Ministry of Transport and Communication (the "Ministry"). Since August 2014, the Company is subject to regulation by the MID. The MID can reduce the Company's interconnection tariffs, while interconnection tariffs of other mobile operators that have not been included in the State Register would remain unregulated. The MID cannot change interconnection tariffs of the Company retrospectively.

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(in thousand of Kazakhstani Tenge, unless otherwise stated)

The standby letter of credit

The standby letter of credit for 10 million US Dollars, within the framework of the general agreement between the Company and Citibank Kazakhstan JSC, was issued on 23 September 2015. As at 31 March 2017, the credit limit has been decreased to 5.5 million US Dollars. This instrument has been issued in favour of Apple Distribution International (Ireland) to allow the Company to extend the term of payment for goods purchased from the company, and will have a positive impact on the Company's working capital. As at 31 March 2017, the instrument has been used, the outstanding balance is 94,486 thousand Tenge.

The "Daytime Unlimited" and failure to disconnect calls on Kcell network

During 2013, an investigation was initiated by the Agency for Competition Protection of the Republic of Kazakhstan ("ACP"), in relation to the "Daytime Unlimited" service under the Activ brand and non-interruption of services when a customer's balance reaches zero under the Kcell brand. On conclusion of the initial investigations, the Antimonopoly Inspectorate issued an administrative offence report with a potential fine on the Company of 16 billion Tenge. During the following court process the Company was able to reduce the penalty to 325 million Tenge and subsequently made payment in full in May 2014.

The ACP ordered that the Company should comply with the following on or before 21 April 2014:

1. to stop collection of the subscription fees under the tariff plan "Daytime Unlimited" in case of insufficiency of funds on a subscriber's account;
2. to ensure interruption of connection (voice or Internet access) when a subscriber's balance reaches zero; and
3. to ensure a refund to subscribers, any fees received as a result of failure to interrupt the connection when a subscriber's balance reaches zero ("the Order").

The Company complied with point 1, however, due to technical limitations of the billing system, the Company is currently unable to implement point 2. However, the Company in the process of introducing a new billing system that will enable the interruption of the connection.

The Company has challenged the ACP findings and decision through the courts system in the Republic of Kazakhstan, culminating in an appeal to the Supreme Court. On 30 June 2015, the Supreme Court of the Republic of Kazakhstan dismissed the Company's supervisory appeal. On 15 June 2015, the ACP filed a claim in court seeking for enforcement of the order. On 9 July 2015, the court issued a resolution on satisfying the ACP claim to enforce the order, and as a result the Company must now enforce points 2 and 3 in the above ACP order.

As at 31 March 2017, the total amount returned to subscribers is 2,564,078 thousand Tenge. As at 31 March 2017, the Company accrued a provision in the amount of 116,640 thousand Tenge (31 December 2016: 116,640 thousand Tenge). The Company expects further refunding the subscription of fees until the point 2 above is enforced.

15. FINANCIAL RISK MANAGEMENT**Financial risk factors**

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk), liquidity risk and credit risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group does not use derivative financial instruments to hedge risk exposures.

Credit risk

The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's sales on credit terms and other transactions with counterparties giving rise to financial assets.

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(in thousand of Kazakhstani Tenge, unless otherwise stated)

The Group's maximum exposure to credit risk by class of assets is as follows:

	Note	31 March 2017	31 December 2016
Trade receivables	9	11,590,262	12,580,667
Cash and cash equivalents		10,043,645	8,476,653
Long-term trade receivables		1,106,042	1,162,961
Due from related parties	6	710,599	738,983
Restricted cash		86,419	86,419
Total maximum exposure to credit risk		23,536,967	23,045,683

Credit risk from balances with cash and cash equivalents is managed by the Company's treasury department in accordance with the Group's policy. Investments of surplus funds are made only with approved financial institutions and within credit limits assigned to each bank or financial institution. Financial institutions' credit limits are reviewed by the Group's Treasury Department on a monthly basis. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through a financial institution's potential failure to make payments.

The Group has policies in place to ensure that sales of products and services are made to customers and distributors with an appropriate credit history. If corporate customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer taking into account its financial position, past experience and other factors. The Group's management reviews ageing analysis of outstanding trade receivables and follows up on past due balances. Customers that fail to settle their liabilities for mobile services provided are disconnected until the debt is paid. Management provides ageing and other information about credit risk. The carrying amount of accounts receivable, net of provision for impairment of receivables, represents the maximum amount of trade receivables exposed to credit risk. The Group has no significant concentrations of credit risk since the customers portfolio is diversified among a large number of customers, both individuals and companies. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provisions already recorded.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash. Due to the dynamic nature of the underlying businesses, the Group's treasury aims to maintain flexibility in funding by keeping sufficient cash available.

The table below shows financial liabilities as at 31 March 2017 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the reporting date. Foreign currency payments are translated using the spot exchange rate at the reporting date.

The maturity analysis of financial liabilities as at 31 March 2017 is as follows:

	Demand and less than 3 months	From 3 to 12 months	More than 12 months	Total
Liabilities				
Borrowings	8,605,222	29,693,639	37,431,944	75,730,805
Trade payables	22,320,219	-	-	22,320,219
Due to related parties	1,273,562	-	-	1,273,562
Total future payments	32,199,003	29,693,639	37,431,944	99,324,586

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The comparative maturity analysis of financial liabilities as at 31 December 2016 is detailed below:

	<u>Demand and less than 3 months</u>	<u>From 3 to 12 months</u>	<u>More than 12 months</u>	<u>Total</u>
Liabilities				
Borrowings	2,942,139	57,683,278	10,624,500	71,249,917
Trade payables	21,605,956	-	-	21,605,956
Due to related parties	<u>1,525,559</u>	<u>-</u>	<u>-</u>	<u>1,525,559</u>
Total future payments	<u>26,073,654</u>	<u>57,683,278</u>	<u>10,624,500</u>	<u>94,381,432</u>

Management believes that the payments of the borrowings and other financial liabilities will be financed by cash flows from operating activities and that the Group will be able to meet its obligations as they fall due. The Company can extend borrowings up to an additional twelve months, subject to consent of the lenders.

Fair value of financial instruments

The Group does not carry any financial assets or liabilities at fair value. Management of the Group considers that the carrying amount of financial assets and financial liabilities with maturity of less than twelve months recorded at amortised cost in the condensed interim consolidated financial information approximates their fair values due to their short-term maturities. For financial assets and financial liabilities with maturity of more than twelve months, the fair value represents a present value of discounted estimated future cash flows with the use of market rates effective at the end of the reporting period. As at 31 March 2017 and 31 December 2016, the fair value of financial assets and financial liabilities were not significantly different from their carrying value.

16. SUBSEQUENT EVENTS

On 6 April 2017, the Board of Directors of the Company proposed an annual dividend for 2016 in the amount of 11,678,000 thousand Tenge, or 58.39 Tenge per ordinary share. This represents 70% of the Group's net income for 2016.